

ADDRESS OF THE COMPTROLLER GENERAL OF THE UNITED STATES,
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BEFORE THE TWENTY-FIFTH ANNUAL CONFERENCE OF THE
NATIONAL INSTITUTE OF GOVERNMENTAL PURCHASING, INCORPORATED
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{ THE GROWING NEED FOR FEDERAL-STATE-LOCAL
COOPERATION IN GOVERNMENT PROCUREMENT }

Those of us concerned with Federal Government have become accustomed to saying "The Federal Government is the largest single business in the world." And I suppose that is true if one thinks of the Federal Government as a single unit.

In addressing ourselves to current problems in Government procurement--and in the impact of procurement upon the economy--the Federal Government is a junior partner if we look at purchases of goods and services by State and local governments as a whole. In the second quarter of calendar year 1970, State and local purchases of goods and services were running at the rate of approximately \$119 billion a year in contrast to slightly less than \$100 billion for the Federal Government, a difference of nearly \$20 billion.

In comparing these totals, it is important to emphasize that we are principally concerned with the purchase of goods rather than services. It is also important to emphasize that about three-fourths of the Federal total is made up of national defense programs while the State and local figures are heavily influenced by public education and safety programs. The mix or composition of procurement is therefore quite different. We share in common, however, the growing problems of budgets, inflation,

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taxes, and the increasing portion which government at all levels plays in the national economy, amounting to more than one-fifth of the total gross national product.

As purchasing officers, you have an important role and bear a heavy responsibility to see that procurement is carried out with maximum efficiency and in a manner which will contribute to the national objectives of stability and growth.

All of us, it is said, are being greatly assisted now-a-days through the adaption of the computer to speed and reduce the cost of governmental purchasing of goods and services. In many ways this is true. Correct usage of the computers is assisting to make government more effective in the innumerable services it provides. But I find that it does not reduce the workload which each of us must carry in government-- wherever we are. I am reminded of a story in this connection.

A distraught husband went to see a marriage counselor.

"Surely," the marriage counselor insisted, "you must have said something to start the terrible argument."

"Not really," the husband replied. "My wife had tried a new recipe for dinner. When she asked how I liked it, all I said was, 'It's okay, but it will never take the place of food.'"

This illustrates my conviction that all the modern inventions which we adapt to our activities will never take the place of the good manager. The basic reason for this, I believe, is that government is essentially a question of management, and management cannot be delegated to something that does not think, although that seems to have been attempted now and then.

One of the reasons that the State and local purchases for goods

and services are larger than those of the Federal Government is that these dollar figures include purchases that are financed by various types of Federal grants--assistance for the highway program, for the social and medical programs, for education, for housing, and so on. More and more you gentlemen are becoming the custodians of Federal funds in your procurement programs.

Grant assistance programs have been dramatically increasing in number and in dollar size in the past 15 years. Those who suggest occasionally that the Federal Government has gone as far as it should in this area are probably not realists when we consider the financial needs of State and local governments.

The situation in this regard is not like that of a young man I know who had been providing his girl friend with all kinds of goodies, such as ice cream sodas, carrying her books to school, and so forth. The young man related to his chum all he had done for the girl and asked: "Now do you think I ought to kiss her?"

"Naw," replied the friend. "You've done enough for her already."

INTRODUCING THE GENERAL ACCOUNTING OFFICE

Now I understand that many of you are not too familiar with the General Accounting Office, which I head, or with the office of the Comptroller General of the United States, which I hold. I will therefore give you a brief introduction. First of all, the General Accounting Office is the correct name. We are often called the Government Accounting Office which sounds correct but is not. Probably we are best known by our initials, GAO.

The genesis of the General Accounting Office lies in the Constitution of the United States, article 1, section 9, clause 7, which states:

"No money shall be drawn from the Treasury, but in consequence of appropriations made by law * * *."

This provision, Alexander Hamilton explained, was designed "to secure these important ends--that the purpose, the limit, and the fund of every expenditure should be ascertained by a previous law." Control over the public purse was placed in the hands of the Congress by the Constitution.

From the passage of the Treasury Act in 1789 until after the first World War, however, financial review of Federal expenditures remained lodged in the executive branch, and the Congress lacked a satisfactory, independent means of reviewing the legality and propriety of "money * * * drawn from the Treasury." Studies established that accounting and auditing methods were inadequate, unsatisfactory, and expensive; that congressional investigations of the administration of laws and expenditures of funds often were partisan; that investigating committees were inadequately staffed; and that congressional efforts to obtain essential information on which to legislate or control public expenditures had largely failed.

To remedy the situation, the Congress enacted the Budget and Accounting Act, 1921, creating the General Accounting Office, headed by a Comptroller General of the United States, in the legislative branch, and the Bureau of the Budget in the executive branch. The Comptroller General was made responsible only to the Congress. To secure the independent status of the Office, the act provided that the Comptroller General, as congressional fiscal representative and auditor, be appointed for a term of 15 years by the President with the advice and consent of the Senate. Once installed

in office, the Comptroller General can be removed only by impeachment or by joint resolution of the Congress for specified cause. He is not eligible for reappointment.

Although the Office has a number of statutory responsibilities, its broad purpose is to provide the Congress--through its own agency--with information regarding the expenditure of authorized funds and operations of the executive branch. The Comptroller General is required to investigate all matters relating to the receipt, disbursement and application of public funds and to make reports to the Congress containing recommendations for legislation and recommendations looking to greater economy or efficiency in public expenditures. The Comptroller General must make investigations and reports as ordered by the Congress or by any committee of the Congress having jurisdiction over revenues, appropriations, or expenditures. The heads of all executive departments, agencies, and establishments are required to cooperate with the Comptroller General and to furnish him access to, and the right to examine, any of their books and records.

Debates in the Congress in connection with the passage of the 1921 act show how the Congress intended that the General Accounting Office should exercise the broad powers written into the legislation.

Representative James W. Good, Chairman of the House Committee which reported the bill, stated:

"It was the intention of the Committee that the Comptroller General should be something more than a book-keeper or accountant, that he should be a real critic and at all times should come to Congress no matter what the political complexion of Congress or the Executive might be and point out inefficiency if he found that money was being misapplied--which is another term for inefficiency--and that he should bring such facts to the notice of the committees having jurisdiction of appropriations."

There were other similar expressions of intent by the legislators.

Clearly, then, GAO from its inception has had a substantial responsibility and interest in the area of Federal procurement as well as in other activities. Until 1949, however, the General Accounting Office conducted what may be termed desk audits--audits of financial documents that determined the legality of receipt and expenditure transactions. Although those resulted in the recovery of substantial sums, they were only incidentally conducive to analysis of the effectiveness and economy of executive agency management.

For many years there has been a growing recognition in the Congress that the Congress, if it is to legislate intelligently regarding complex programs calling for large expenditures, must have available to it better information on the management of ongoing programs and better analyses of new executive branch proposals. In this era of \$200 billion annual budgets, the Congress confronts informational needs of unprecedented proportions each year.

In recent years there has been a shift by the General Accounting Office away from its earlier approach to a broader response to congressional needs.

Once started in the direction of a comprehensive audit approach, GAO has continually expanded the scope of its activities. In addition to its staff of accountants and auditors, professional staff in other disciplines--economics, business administration, mathematics, engineering, and systems analysis--have been added to achieve the capability for more effective review, analysis, and evaluation of Government programs. Over 400 members of a total professional staff of 3,000 are from fields other than accounting or auditing.

When necessary, GAO obtains information from those with expertise in particular fields outside the Office and engages the services of consultants.

FEDERAL COOPERATION PROVIDED IN PROCUREMENT

Procurement is the science, or perhaps the art, of getting the most for the taxpayer's money in a whole spectrum of buying, leasing, or otherwise acquiring goods and services. As we have seen, the Federal Government spends about \$100 billion a year in over 10 million procurement actions. As a sole buyer, it has a special relationship to tens of thousands of supplier companies. Of course, many public policies constrain and guide the process, such as encouragement of small business, special provisions for labor surplus areas, and so on. In addition, the Federal Government is profoundly concerned with the economic well-being of State and local governments, and--for that reason, should share with them the special knowledge, techniques, and advantages derived from its position as the biggest single buyer in the American economy.

And now for a few examples of the kind of cooperation that is currently taking place. Through the General Services Administration, a regular--although relatively informal--program is provided whereby the Federal Government exchanges procurement specifications and standards information with State and local governments. An excellent example of this cooperation is GSA's Index of Federal Specifications and Standards, through which State and local procurement officials can identify and gain access to the Federal and Interim Federal Specifications, Federal and Interim Federal Standards, Federal Standards Handbooks, and Federal

Qualified Products List. Practically all State governments and many local governments subscribe to the Index.

The National Association of State Purchasing Officials, which maintains a Reporting Service on Specifications, frequently publishes a listing of newly developed specifications available from the various States and the Federal Government. GSA, for example, regularly receives this listing and circulates it throughout the agency. Any unit of GSA interested in the specifications can obtain copies from the State which developed the specification information. Although no formal machinery is established for this information exchange, the exchange process is characterized by cooperation and mutual helpfulness.

As many here may know, GSA officials participate periodically in seminars--together with State and local procurement officials--designed to

- emphasize the importance of and need for a well-defined program of standardization and commodity specifications in State purchasing,
- show the keen interest and endorsement of such a program by industry,
- consider the means of improving the mechanism whereby each State may take advantage of commodity research accomplished by other States and by the Federal Government and thus minimize duplication of individual effort and expense, and lastly,
- create interest in development of some specifications that can be used without charge by all States as standards for procurement purposes.

FEDERAL COOPERATION ON PRICING

Whenever requested by State or local procurement officials, GSA provides pricing data and copies of Federal Supply Schedules. These data can then be used by State or local government units as standards for procurement purposes. Conversely, GSA occasionally requests pricing data from the States for guidance in making negotiated or advertised procurements. The General Accounting Office also uses State prices, on occasion, for comparison with prices being paid by the Federal Government, and sometimes we find that the States do better.

In one of our reviews, we found that the State of California had obtained substantially better prices than the Federal Government in contracting for light bulbs and tubes. GAO compared GSA prices with the prices for 197 of the 685 items obtained by California under formally advertised contracts. On the basis of annual Government expenditures of \$13.3 million for the 197 items, GAO estimated that savings of at least \$1.7 million, or about 12.4 percent, could have been realized had GSA purchased the items through formal advertising.

COOPERATION VIA JOINT FEDERAL-STATE-LOCAL PANEL

A joint, Federal, State, and Local Government Advisory Panel on Procurement and Supply has been established. This Panel comprises authorities in the field of Government procurement and supply of Federal, State, and local governments or quasi-public institutions or organizations. It is expected that the Panel will increase efficiency and reduce expenditures in procurement and total supply operations at all levels of government and will establish liaison on operational problems and policy so that all resources, experience, and expertise available throughout various levels of government may be fully utilized.

The importance of such endeavors can be illustrated in almost any procurement area--such as urban land use, space and atomic energy, and health programs. For the purposes of this discussion, I will focus in detail upon the area of grant assistance.

MANAGEMENT OF FEDERAL GRANT ASSISTANCE

Federal financial assistance to State and local governments in the form of grants to support various kinds of social or economic purposes has become very big business and is enormously complicated.

Total support provided by the Federal Government to State and local activities--in the form of grants--is not readily ascertainable. The number--now some 400--and the size of grant programs have rapidly increased.

Federal expenditures in 1955 for these programs were \$3.3 billion. Today expenditures are running at a rate of over \$27 billion a year--more than 13 percent of the total Federal budget. This form of assistance will continue to grow unless major changes are made in the system of financing services to be performed by governmental bodies.

It has been estimated that seven eighths of the Federal grants are received directly by State governments with the balance going to local governmental units. A significant portion of these grants, however, is channeled by the States to local governmental units.

The growth in the number and size of grant programs has not been accompanied by sufficient deliberate, advanced planning for good management and related control systems. Nor has adequate consideration been given

to the resources available to manage the programs.

New and larger programs have been superimposed upon a complex organizational structure involving 21 Federal departments and agencies and 150 bureaus and divisions; 50 States; and 92,000 local governmental units, with varying kinds of interrelationships among them.

In fiscal year 1969, five Federal departments or agencies administered 90 percent of the grant-in-aid funds received by State and local governments. These departments or agencies were HEW (50 percent); HUD (20 percent); and the Department of Transportation, OEO, and the Department of Agriculture (20 percent in total).

One result of this complexity has been the involvement of a great many management and administrative problems that interfere with efficient and economical operations. More effective and efficient management of Federal assistance programs by the responsible units of Federal, State, and local governments has, therefore, become a matter of urgency.

One of the most serious of current administrative and financial problems in this area is inadequate auditing. We find ourselves facing a fantastic array of differing views and attitudes as to how best to carry out this responsibility. A common body of audit standards and guidelines is needed to provide a basis for Federal agencies to rely on non-Federal audits in addition to Federal audits.

In cooperation with the Office of Management and Budget and other of the larger agencies directly involved in Federal grant programs, GAO last February took the lead in organizing a special working group

to review grant program auditing problems and to develop an acceptable body of auditing standards.

The significance of the auditing standards project to you members of the National Institute of Purchasing lies in three objectives of the project.

1. To promote improved auditing and, thereby, better management of grant programs.
2. To obtain better evaluations of the performance of programs and the accountability for public funds used.
3. To obtain information resulting from these evaluations that will enable executive and program managers--at State, local, and Federal levels--as well as legislators to carry out their responsibilities.

In short, the overall objective is to seek answers to the simple question of whether the programs carried out, and the expenditures made, are accomplishing what they are supposed to accomplish.

As auditors, we like to consider the auditing function to be a vital part of the total management process. We cannot take it for granted, however, that the auditing function is always understood or even wanted in all quarters. It is part of our job to demonstrate that what we do is useful to managers by providing information that will help them to do a better job.

GSA'S PROPOSED PURCHASING PLAN UNDER
THE GRANT PROGRAM

One proposal now under review in Washington for reducing costs of supplies and equipment purchased by States and local governments under Federal grant assistance comes from the General Services Administration.

GSA estimated that considerable financial savings could be attained by the Government if GSA supply sources were also used by Federal grantees. Moreover, GSA believes that grantee use of its supply sources is legally permissible under authority contained in the Federal Property and Administrative Services Act of 1949. GSA believes that, since the functions performed by grantees are generally an integral part of the Federal agency program, supplying and equipping the numerous grant programs through GSA supply sources promotes greater economy and efficiency in Government procurement programs.

GSA has estimated that, within as few as 5 years after implementing its purchase plan, as much as \$200 million annually could be realized. Its estimates are based upon a number of assumptions, including the anticipated growth in the Federal grant-in-aid programs, the amount of grant funds spent for supplies and equipment, and the expected savings attainable through GSA sources.

Although there has been considerable interest in the GSA proposal, GSA has encountered the objection that the plan involves an undesirable degree of control over State and local governments. Questions have been raised also as to whether the GSA proposal had adequately identified the full range of administrative and legal problems for the grantee.

For example, business organizations reportedly have objected--on the basis of the impact on small businesses--to any plan that would have the Federal Government act as a central purchasing agent for State and local governments. Similarly, it is known that certain of the States have statutes providing for price differentials favoring local business, different competitive-bidding requirements, and other procedures which might prevent the use of GSA supply sources.

Fortunately, much progress has been made during the past year. Many of the State and local-level problems have been or are being resolved. In March 1970, GSA amended the Federal Property Management Regulations to provide policy guidance and procedures in the use of GSA supply sources by Federal grantees and contractors. Subsequently, concurrence was obtained from the Federal agencies. HEW--which administers the biggest portion of Federal grant-in-aid funds--authorized its grantees to use GSA supply sources.

Federal machinery is now ready to offer grantees the economies of purchasing from GSA sources. GSA estimates, however, that full-scale implementation of the purchasing plan will probably require a year or two.

COMMISSION ON GOVERNMENT PROCUREMENT

This whole subject will be of interest to the Commission on Government Procurement, created by the Congress last November to conduct a broad review of the Government's procurement statutes, regulations, policies and procedures, and the problems arising thereunder. The Commission is established for 2 years and is composed of 12 members,

including the Comptroller General.

In our opinion, Government procurement is so burdened with complex statutes and regulations and is so inter related with other governmental, social, and economic programs and policies that the Commission has a unique opportunity to suggest substantial improvements in procurement procedures which would benefit both Government and business.

There are two procurement statutes which cover most of the Federal agencies: the Armed Services Procurement Act for the military and the Federal Property and Administrative Services Act for the civil agencies. In addition, the Small Business Act, the Defense Production Act, the Buy American Act, the Budget and Accounting Act, the Freedom of Information Act, the labor standards legislation on public contracts, and the Renegotiation Act all have procurement impact. Then, of course, there are numerous legislative provisions applying to individual agencies. The Commission's objective will be to achieve a substantial modernization of all these statutes.

A closely related problem is that of procurement procedures involving ways and means of achieving competition for Federal procurements. Advertised bidding which, by law, is supposed to be the preferred procedure for purchasing services and supplies, in fact, is used for only about 10 percent of our procurement dollar. This is partially understandable when one considers that major weapon systems--ships, tanks, and planes--cannot be procured under rigid advertised-bidding procedures.

But what about general supplies and services? Surely competition should be obtained in purchasing furniture, office supplies, printing

services, and similar common-use items. The Commission will study the procurement statutes and regulations to see if they can be revised to permit more competition where competition is available and more safeguards where sole-source procurement must be used.

Another area which illustrates the range of problems before the Commission is this question: What work shall the Government do for itself and what should be done by contract? The general policy in the Federal Government is to favor private enterprise. This means that--other things being equal--it contracts for the work rather than does the work in-house.

It is difficult to imagine the economic, social, and legal ramifications of a decision to do something in-house rather than outside, or vice versa. The choice today is made on the basis of a cost comparison as set forth in Circular A-76, a so-called out-of-pocket or incremental cost comparison from the Government standpoint. Many feel that this type of cost comparison unduly works against the contracting-out concept.

I have already mentioned the numerous special laws involving labor standards--wages, maximum hours, equal employment opportunity, health and safety standards, and certain labor standard definitions--which affect Government procurement. These are matters which the Commission may wish to examine.

MILITARY PROCUREMENT AND THE NEEDS OF THE CONGRESS

One area of Federal procurement, the most important one in terms of dollar volume and national security, is procurement by the Department

of Defense. This highly specialized area of procurement is outside the scope of my remarks today, but some mention of current trends in this area is necessary.

As many of you undoubtedly know, many congressmen today are not willing to accept Department of Defense appropriation requests without seriously questioning the supporting information submitted by the military services. The overall approach of the Congress has been described as changing from one of advocating more Defense dollars to one of examining more and more critically the justifications for proposed new programs as well as continuing ones.

Now, congressmen are lawyers, used car dealers, doctors, businessmen, dairy farmers, and so on. Few are expert in the field of procurement, military or civilian. Not many are familiar with the detailed workings of the executive branch where the money is spent which the Congress must appropriate.

One prominent congressman recently said that he found the staffing and backup resources available for analyzing the military procurement budget to be wholly inadequate to the task, describing the amount of justification material that has to be analyzed as incredible. I agree. He said:

"The Congress is almost hopelessly handicapped in obtaining a thorough-going independent analysis of the Pentagon's proposals."

He terms this a "constitutional crisis."

This brings us back to the role of the General Accounting Office. Most of the present analytical capability and most of the information bearing on the justification of weapon systems are in the executive branch.

Turning more to the General Accounting Office for help in the defense area, as the Congress is increasingly doing today, is a natural alternative. Work which GAO does as a result of requests for assistance to the Congress has increased sharply in the past 3 years and now constitutes about 20 percent of the output of its professional staff. GAO reviews all aspects of national defense activities: facilities and construction required, use of manpower, transportation, and the myriad of supply activities by the three military services.

For example, in August GAO issued an important report dealing with a central problem of any procurement operation, but especially true in the Department of Defense--the need for better trained personnel and a better program for ensuring a satisfactory career in procurement operations.

In this report, GAO asked the question:

What is the single most important element in the procurement process in the Department of Defense?

GAO answered its own question:

The caliber of the people who buy annually the tens of billions of dollars worth of this equipment and services.

Could not this same question be asked of State and local procurement? And would not the answer be the same? "The caliber of the people" who do the buying. Certainly this is a problem common to all levels of Government.

In closing, I should like to emphasize another problem which we have in common--that is, the growing concern about priorities in governmental spending and the growing concern about the increasing cost of providing public services. This is a problem which is no longer predominantly of concern to budget officers and to the ways and means, finance, and

appropriations committees. It is a subject debated far and wide in public forums and by groups and individuals frustrated by growing problems of crime, housing, transportation, welfare, and the myriad of other incredibly difficult problems associated with our highly urbanized industrial society.

You as procurement officials must share in the concern about priorities and whether you are stretching the procurement dollar as far as it can be stretched. Would it not be possible, for example, for you to consider a review similar to that which has been undertaken by the Federal Commission on Government Procurement which could have its findings developed and, hopefully, related to those of the Commission dealing with procurement at the Federal level? I offer this only as a suggestion and not as a fully thought-out proposition. But that is how the Commission on Government Procurement originated--by the thoughtful concern of people such as Congressman Chet Holifield of California and Congressman Frank Horton of New York.

As grant-in-aid programs grow and as the Federal Government undertakes new and enlarged programs to deal with urban problems, it will become increasingly important that there be maximum coordination and cooperation in the procurement of goods and services needed to carry out these programs in the most economical manner.